

Message Text

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FM AMEMBASSY SAN JOSE

TO SECSTATE WASHDC PRIORITY 4015

C O N F I D E N T I A L SECTION 1 OF 2 SAN JOSE 1714

E. O. 11652: GDS

TAGS: EFIN, PGOV, CR

SUBJECT: " VESCO COMMISSION: RELEASES REPORT

REF: SAN JOSE 121 0 LIMDIS

A-87, MAY 8, 1973

SUMMARY: IN A SURPRISINGLY RAPID CONCLUSION TO TWO AND ONE HALF MONTHS OF LISTENING TO TESTIMONY AND GATHERING EVIDENCE, THE NATIONAL ASSEMBLY' S SPECIAL COMMISSION TO INVESTIGATE MUTUAL FUNDS TURNED OUT A FORTY TWO PAGE REPORT ON MAY 15. THE REPORT WAS SIGNED BY FIVE OF THE SIX MEMBER DEPUTIES ON THE COMMISSION. THE PRESIDENT OF THE COMMISSION, RAFAEL VALLADARES MORA DID NOT SIGN THE REPORT, BUT TOLD THE PRESS HE WAS DIAMETRICALLY OPPOSED TO THE CONCLUSIONS AND WOULD SOON MAKE PUBLIC HIS OWN MINORITY POSITION. END SUMMARY

1. THE MAJORITY REPORT, WHICH WAS HEADLINE NEWS IN ALL SAN JOSE PAPERS, WAS AN INVESTIGATIVE WHITEWASH OF MUTUAL FUND INVESTMENTS IN COSTA RICA. IT COMPLETELY EXONERATED ROBERT VESCO AND CLOVIS MAC ALPIN, THE TWO PERSONALITIES WHOSE ACTIVITIES IN CONNECTION WITH MUTUAL FUNDS' INVESTMENTS HERE WERE IMPLICITLY UNDER INVESTIGATION.

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2. ACCORDING TO REPRINTS OF THE REPORTS' CONCLUSIONS, CARRIED IN THE PRESS TODAY, THE COMMISSION'S DETERMINATIONS WERE BASED BASICALLY UPON ITS STUDY OF TWO QUESTIONS: (1) " THE LEGALITY OR ILLEGALITY OF ALL THE (MUTUAL FUND) INVESTMENTS IN COSTA RICA. . . AND (2) " THE DESIRABILITY OR UNDESIRABILITY OF THESE INVESTMENTS IN COSTA RICA.

3. IN ANSWER TO THE FIRST POINT, THE COMMISSION CONCLUDED THAT MUTUAL FUND INVESTMENTS AND OPERATIONS HERE HAVE BEEN METICULOUSLY CONDUCTED ACCORDING TO COSTA RICAN LAW. THE REPORT POINTS OUT THAT IN ALL OF ITS EVIDENCE THERE IS NO SUGGESTION THAT MUTUAL FUND OPERATIONS IN COSTA RICA HAVE BEEN HANDLED ILLEGALLY.

4. IN CONNECTION WITH THE LEGALITY QUESTION, THE REPORT SAYS THAT THE COMMISSION CONSIDERED CAREFULLY AND DEEPLY THE IMPLICATIONS OF THE SEC CIVIL SUIT AGAINST ROBERT VESCO AND 41 OTHER DEFENDANTS. THE REPORT NOTED THAT VESCO'S LARGE INVESTMENTS IN COSTA RICA HAVE BEEN MADE WITH FUNDS WHICH " ACCORDING TO THE SEC, SHOULD NOT HAVE BEEN TAKEN FROM THE UNITED STATES (EVEN THOUGH THEY EARLIER HAD BEEN TAKEN OUT OF DEVELOPING COUNTRIES LIKE OURS). WHAT IS STRANGE IS THAT, IF THERE IS CONCERN IN THE U. S. OVER THE FLIGHT OF THESE FUNDS, THE SEC HAS LIMITED ITSELF TO SEEKING A CIVIL JUDGMENT AND NOT A CRIMINAL JUDGMENT THAT WOULD PUNISH THIS ILLEGAL EXIT OF FUNDS." THE REPORT ADDS THAT THE COMMISSION WOULD HAVE EXCEEDED ITS ASSEMBLY MANDATE IF IT HAD TRIED TO JUDGE VESCO FOR ACTS COMMITTED IN FOREIGN COUNTRIES.

5. HAVING DISPOSED OF THE LEGAL QUESTION, THE REPORT'S CONCLUSION STATES THAT THE COMMISSION MEMBERS VIEWED THEIR CONSIDERATIONS OF THE DESIRABILITY OR UNDESIRABILITY OF SUCH INVESTMENTS IN COSTA RICA AS CRUCIALLY IMPORTANT. THE REPORT STATES THAT INsofar AS THESE INVESTMENTS ASSIST THE DEVELOPMENT OF COSTA RICA THEY ARE " BENEFICIAL AND DESIRABLE FOR OUR ECONOMY."

6. THE REPORT ESTIMATES THAT BETWEEN 25 MILLION AND

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100 MILLION DOLLARS, INVESTED IN MUTUAL FUND BY COSTA RICANS, LEFT THE COUNTRY BETWEEN 1968 AND 1969, THUS SEVERELY PREJUDICING THE NATIONAL ECONOMY. IT GOES ON TO SAY THERE WAS THEP NO SCANDAL NOR ANY ATTEMPT TO PASS LEGISLATION WHICH WOULD HAVE LIMITED THAT OUTFLOW OF CAPITAL. THE REPORT COMPARES THIS ATTITUDE IN COSTA RICA AT THAT TIME WITH THE " CLAMOR

OF PROTEST" RAISED OVER THE MUTUAL FUND INVESTMENTS
NOW BEING RETURNED TO THIS COUNTRY.

7. IN ANOTHER SECTION OF THE REPORT, THE COMMISSION
RECOMMENDS LEGISLATION WHICH WILL GOVERN AND CHANNEL
FOREIGN INVESTMENT TO PROVIDE OPTIMUM ADVANTAGE
TO COSTA RICA. FOREIGN INVESTMENT, THE REPORT POINTS
OUT, SHOULD NOT COMPETE WITH NATIONAL INVESTMENT, BUT
COMPLEMENT IT, PARTICULARLY IN AREAS WHERE NATIONAL
INVESTMENT CANNOT BE ATTRACTED. THE REPORT CITES
THE INVESTMENTS IN GOVERNMENT BONDS AS AN EXAMPLE
OF A BENEFICIAL INVESTMENT IN AN AREA UNATTRACTIVE
TO NATIONAL CAPITAL.

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8. THE COMMITTEE REPORT WAS IMMEDIATELY ATTACKED
EDITORIALLY BY EL DIARIO AND LA NACION AND CERTAINLY
MORE WILL FOLLOW. JENARO VALVERDE MARIN, PLN DEPUTY AND
CHAIRMAN OF THE ASSEMBLY'S COMMITTEE FOR ECONOMIC
AFFAIRS, BLASTED THE REPORT AS SUPERFICIAL AND
SIMPLISTIC. EL DIARIO'S DIRECTOR, JULIO SUNOL,
LONG AN OUTSPOKEN OPPONENT OF VESCO'S ACTIVITIES HERE,
LED THE PRESS OUTCRY IN A RARE, FULL FRONT- PAGE EDI-
TORIAL, ENTITLED " THE REPUBLIC'S MORAL CRISIS." IN
HIS EMOTIONAL BUT PENETRATING EDITORIAL, SUNOL TAKES
THE DEPUTIES WHO SIGNED THE REPORT TO TASK FOR
EXONERATING VESCO FOR BRINGING UNORTHODOX CAPITAL
IN " PRECARIOUS MORAL CONDITION" TO COSTA RICA.
LATER, SUNOL ACCUSES THE INVESTIGATING COMMISSION
OF ATTACHING NO IMPORTANCE TO THE CHARACTER OF CAPITAL
INVESTED IN COSTA RICA.

9. VESCO'S REPRESENTATIVE, RAUL ESPINOSA, WAS QUICK TO COMPLIMENT THE COMMISSION FOR ITS REPORT WHICH HE SAYS, " WILL HAVE A FAVORABLE IMPACT ON THE INTERNATIONAL FINANCIAL COMMUNITY."

10. COMMENT: THE COMMISSION'S REPORT WAS COMPLETED MUCH MORE RAPIDLY THAN WE OR THE PUBLIC EXPECTED, EVEN CONSIDERING THE PERSISTENT NEWSPAPER PRESSURE TO FINISH IT UP. THERE HAD EVEN BEEN CONSIDERABLE DRAFTING
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BEFORE THE LAST WITNESS HAD FINISHED TESTIFYING LAST WEEK. THUS, THERE WAS OBVIOUSLY POLITICAL PRESSURE TO PRODUCE THE MAJORITY VERSION, PROBABLY TO GIVE THE EXPECTED REACTION AMPLE TIME TO COOL OFF AND KEEP IT AS SAFELY AS POSSIBLE AWAY FROM THE ELECTION CAMPAIGN.

11. THE FIVE DEPUTIES WHO SIGNED THE REPORT COMPRISE THE 3 PLN MEMBERS SUPPORTING PRESIDENTIAL CANDIDATE, DANIEL ODUBER AND TWO OPPOSITION DEPUTIES WHO SUPPORT UNIFACACION NACIONAL'S TREJOS ESCALANTE. THE PRESIDENT OF THE COMMISSION, RAFAEL VALLADARES MORA, A JORGE GONZALEZ MARTEN BACKER, SAYS HE IS " DIAMETRICALLY OPPOSED" TO THE MAJORITY REPORT AND EXPECTS TO PRODUCE HIS OWN VERSION BY NEXT WEEK. BOTH THE CURIOUS SPLIT AMONG THE COMMISSION MEMBERS AND THE TONE AND CONTENTS OF THE REPORT HAVE A STRONG SMELL OF ELECTORAL POLITICS. ALL THE SIGNS POINT TO A SUCCESSFUL VESCO POLITICAL CONTRIBUTION ON THE UN SIDE OF THE POLITICAL FENCE AS SUGGESTED IN REFTEL OR AN EFFORT BY THE UN NOT TO PRECLUDE AN ARRANGEMENT WITH VESCO AT SOME FUTURE TIME. PROFESSIONAL POLITICIANS IN BOTH THE PLN AND UN UNDOUBTEDLY EXPECT THAT THE INEVITABLE PRESS REACTION TO THE WHITEWASH WILL SOON SUBSIDE AND THUS THE ELECTORAL SIGNIFICANCE OF VESCO AND MUTUAL FUNDS WILL HAVE BEEN GREATLY DOWNGRADED.
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